

FORESTLAND INCENTIVES

A REPORT OF THE
FORESTLAND INCENTIVES
TASK FORCE AND
RESOURCES AGENCY
ACTION PLAN



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MESSAGE FROM THE SECRETARY FOR RESOURCES

MESSAGE

On December 15, 1999, Andrea Tuttle and I convened a Forestland Incentives Task Force to give us guidance in our effort to improve the use of incentives and cooperative programs in managing California's Forests. We both strongly believe that California's forests can best be protected by improving our incentive programs as well as increasing enforcement of existing regulations.

Through other actions, we have focused on improving the regulatory system, or the "stick." This Task Force was brought together to focus on the "carrots:" what incentives can government provide to encourage private landowners to make smart choices in managing their lands for sustainable timber harvest, while protecting watershed values over and above the minimums required by regulation. Ultimately, we hope these incentive programs will both improve our natural environment, help to recover threatened salmon populations, and keep timberlands in production as an essential part of California's working landscapes.

In order to review and evaluate existing incentive programs, we brought together the best people in the business, including forest landowners, professional foresters, environmentalists, and various agency representatives. The Task Force met twice in Sacramento. The first meeting was held on February 1, 2000. The second meeting was held on April 11, 2000. We charged the Task Force with reviewing the effectiveness of the current financial incentive programs and making recommendations for improving existing programs or developing new ones. Current incentives include tax breaks, conservation easements, cost-share programs, access to capital, and stewardship certification.

The work of the Task Force resulted in some outstanding recommendations. Each of their recommendations is outlined in this report. The Resources Agency and the Department of Forestry and Fire Protection have taken steps since the meetings to implement many of the Task Force's recommendations, and we are continuing to work with participants and others to address additional ones. These efforts are described under the Resources Agency Action Plan. I am confident that these steps will improve the conservation of our forest resources for future generations.

My thanks to members of the Forestland Incentives Task Force for your assistance in helping to craft a program of sustainability for California's forests and communities.



Mary Nichols

INTRODUCTION BY THE DIRECTOR OF THE CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE PROTECTION

INTRO

The Forestland Incentives Task Force was commissioned in response to a desire to improve the delivery of incentives programs.

Traditional cost-share programs such as the California Forest Improvement Program (CFIP) and the federal Forest Stewardship and Forest Improvement Programs have focused on improving forest management and enhancing or restoring wildlife habitats. Newer programs like Forest Legacy focus on preventing forestland conversions to non-forest uses. The use of these programs by California forestland owners has varied over time as a result of changes in funding and modifications to programs to meet shifting demands and needs of the consumer.

Preserving and enhancing California's valuable forest resources in the face of these shifting demands and needs means more than changing the work we do. It also means changing the way we do work. It means more coordination and cooperation across agencies. It means breaking through existing single purpose programs to design cross-cutting ones that will make a difference. Guarding one's turf and ignoring relevant agencies doom us to repeat the failures of the past.

The findings and recommendations of the Task Force challenge us to take a new look at the way we do business. It's up to all of us to respond in new ways, whether we work in government, the non-profit sector, or the business world. The stakes are simply too high, and the time for action is too short.

I believe that the following discussion and recommendations are very timely. They provide a prescription for agencies like the California Department of Forestry and Fire Protection. By implementing thoughtful changes to existing programs, adding new programs, and eliminating ineffective ones, meaningful changes will occur on the ground where they count. Forestland owners will benefit, and our society will benefit from the improvements made to our forest resources.

I challenge you to find a way to make a contribution to this effort.



Andrea Tuttle

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ACKNOWLEDGEMENTS

The Resources Agency thanks the following participants for sharing their expertise and ideas. We recognize that not all recommendations are endorsed by all participants.

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EXECUTIVE SUMMARY

The California Resources Agency (the Agency) and the Department of Forestry and Fire Protection (CDF) convened the Forestland Incentives Task Force to help improve the use of incentives and cooperative programs to conserve forested lands, promote sustainable forestry, and protect forest resources. The Task Force was convened with the understanding that incentive programs should be offered for exemplary forest stewardship, above and beyond the minimum practices required by regulation. The purpose of the Task Force was to review the effectiveness of current financial incentive programs and to develop recommendations for improving existing programs and developing new ones as needed. The Task Force evaluated four categories of incentives: cost-share programs, certification, conservation easements, and tax incentives. A very long and challenging list of recommendations was offered by the Task Force and is included in the report.

RECOMMENDATION HIGHLIGHTS AND ADMINISTRATION COMMITMENTS

The Task Force encouraged the Agency and CDF to cull the complete list of recommendations into a smaller subset which will receive clear support and follow-through. The Agency and CDF believe the nine steps highlighted below will collectively result in substantial progress. Some of these steps will not all be easy to implement and will take the continued support and involvement of many of the Task Force members. We will all need to continue to support these and additional future actions to create an environment where excellent forest stewardship can and will thrive in California.

1. RESTORE AND EXPAND THE CALIFORNIA FOREST IMPROVEMENT PROGRAM (CFIP)

This program is the premiere State cost-share program that assists landowners in improving their forestlands through a variety of projects including fuels reduction, road assessment and maintenance, and restoration





projects. The Task Force strongly recommends that the Administration restore funding and increase the level of technical assistance and breadth of projects covered through this program.

- In budget year 1999-2000, *the Administration restored \$2.2 million in CFIP funding and increased staffing from 3 to 6 to increase assistance to forest landowners.*
- The Agency supported and the *Governor signed Assembly Member Strom-Martin's Assembly Bill 2478 to allow CFIP use for protecting forest stands from fire and to remove funding limits for conservation and habitat purposes.*
- CDF will closely monitor this program's level of use and identify needs for future funds or additional authorities as they arise.
- The Agency will consider options to stabilize funding levels for cost-share and stewardship programs including endowments, environmental trust accounts, and revolving funds.

2. INCREASE FUNDS FOR RESTORATION ACTIVITIES TO PROTECT SALMON AND STEELHEAD

- The Task Force recognizes the value of restoration project funds for cost-sharing on private landowner projects.
- *Through the passage of the Water Bond and Parks Bond, \$55 million of new Coastal Salmon project dollars are available through Department of Fish and Game and Coastal Conservancy. In addition, the Administration has worked cooperatively with the States of Oregon, Washington, and Alaska to secure \$9 million of new federal funds in FY99-00.*

3. ASSIST FORESTED LAND OWNERS, RESOURCE CONSERVATION DISTRICTS, AND COMMUNITY GROUPS WITH WATERSHED ASSESSMENT AND PLANNING

- The Task Force recommends that all watershed management activities be supported and expanded.
- In budget year 2000-2001, the Resources Agency, California Department of Fish and Game, California Department of Forestry and Fire Protection, California Department of Conservation, State Water Resources Control Board, and Department of Water Resources were jointly funded to undertake the *North Coast Watershed Assessment Program. This new \$7 million-a-year program will provide essential information to both landowners and community groups which will assist in processing timber harvest plans and targeting restoration and easement program dollars.*
- While the Task Force recognizes the new State watershed assessment program as a good start, they have identified an additional need for the State to assist small landowners with completing in-depth watershed analyses for their lands. The Board of Forestry is currently considering a watershed analysis approach to regulations. *The Agency will work with CDF, Board of Forestry, landowners, and the Legislature to determine whether existing grant and cost-share programs can be used to assist nonindustrial forest landowners with watershed analyses* for timber harvest planning, should a watershed analysis rule package be adopted by the Board.

4. EXPLORE ROLE OF CERTIFIED FORESTRY IN REGULATION

Third party certification is a private and nonprofit sector market-based approach that is quickly gaining popularity in California's forests lands. Certification establishes a performance-based system of forestry that may have some merit for a new regulatory approach.

- At the recommendation of the Task Force and the Board of Forestry, *CDF has convened a new Forest Stewardship Task Force to explore the potential role of independent third-party certification in facilitating regulatory compliance with Forest Practices Act, Endangered Species Act, and Clean Water Act.*
- This Task Force is also discussing other options for regulatory incentives for land managers using excellent forest practices. For example, they are exploring the use of a *Programmatic Timber EIR on a watershed scale, with a possible pilot project in Placer County.*

- At the recommendation of the Task Force, the Agency will work with its departments to incorporate certified forestry into project selection criteria of landowner assistance programs, as appropriate.

5. DEVELOP AND IMPLEMENT A CALIFORNIA FOREST LEGACY PROGRAM FOR CONSERVATION EASEMENTS

The Forest Legacy Program is a major new commitment by the Administration to embrace forest land conservation easements as a critical tool for protecting forestlands from urban growth and rewarding long-term stewardship.

- *The Governor signed Senator Chesbro's Senate Bill 1832, establishing a State Forest Legacy Program to prevent forestland conversions and protect forest habitats.* This law provides authority for agencies and non-profit land trusts to purchase and hold easements.
- *CDF is amending the Forest Legacy Program Assessment of Needs to make program funds available to all forested counties in California,* and will continue to seek additional federal funding for California.
- The Administration supported and the voters passed *Proposition 12, which provides \$5 million for Forest Legacy.*
- CDF is assisting Pacific Forest Trust efforts to amend federal authorization to allow federally funded Forest Legacy easements to be held by non-profits.

6. SUPPORT AMENDMENTS TO THE FEDERAL TAX CODE FOR CRITICAL FOREST STEWARDSHIP ACTIVITIES

The Agency and CDF will recommend support for collaborative efforts by industry, environmental groups, forest landowners, fishery groups, and others to work with Congressional representatives to develop new tax legislation that reduces disincentives to stewardship activities. These measures might include:

- Amendments to the federal tax code including tax deductions for road and culvert maintenance, erosion controls, small timberland owner exemptions to passive loss requirements, and tax deferments or reductions for "light-touch" forestry.
- Reforms in federal estate tax code that encourage retention of working forests and ranch lands.

7. INCREASE STATE TAX INCENTIVES FOR FORESTLAND STEWARDSHIP

The Task Force recommends that State tax credits be

expanded as a tool to protect sensitive lands and to partially offset the cost of potential new regulations which might expand riparian buffer widths.

- *The Governor included a new \$100 million Natural Heritage Preservation Tax Credit Act of 2000 in the 2000-2001 budget for easements that protect natural legacy lands including old growth forestlands and oak woodlands.* The Wildlife Conservation Board will administer this program.
- *The Agency encourages continued discussions through CDF for reasonable, additional tax credits as a potential partial offset for future endangered species act recovery requirements* similar to the approach adopted by Washington State, particularly for landowners that are most affected. These additional credits could take the form of credit for trees that provide public trust values, reduced yield tax for deferred harvest, and tax credits for temporary easements.

8. ENCOURAGE MARKET-BASED APPROACHES TO CARBON SEQUESTRATION

California is participating in national and international discussions on establishing registries to reduce greenhouse gasses and slow global warming. A California carbon registry will provide standards and mechanisms for measuring carbon dioxide and may assist in creating a market for carbon sequestration by forest landowners.

- *The Governor signed Senator Sher's Senate Bill 1771 to establish a California Climate Action Registry for voluntary greenhouse gas reductions and to identify strategies to reduce emissions, such as carbon banking on forestlands.*
- CDF will work with all interested parties to develop a set of principles for carbon credits and banking on forest lands and guide location of banks toward sensitive or legacy habitat areas.

9. SUPPORT UNIVERSITY COOPERATIVE EXTENSION PROGRAMS TO ASSIST FOREST LANDOWNERS

The Task Force recommends continued support for University of California Cooperative Extension's leadership role on forestland incentive programs.

- The University of California Cooperative Extension (UCCE) will fill geographic and disciplinary gaps among their Natural Resource Advisors.
- UCCE is updating its directory, "Cost-Share and Assistance Programs for Individual Landowners and Indian Tribes".
- UCCE will update their "Working in the Woods" CD and coordinate with CDF on outreach.

ABOUT THE TASK FORCE

PURPOSE

The Resources Agency is interested in improving the use of incentives and cooperative programs to conserve forested lands, promote sustainable forestry, and protect forest resources. The Agency believes that incentives have an important role in promoting supplementary regulatory program activities that conserve valuable forest resources.

To obtain the best information on how to improve incentives for forestlands, the Agency convened a Task Force to develop recommendations. The purpose of the Task Force was to review the effectiveness of current financial incentive programs and to develop recommendations for improving existing programs and developing new ones as needed.

OBJECTIVES

The objectives of the Task Force were:

- 1) To review the intent and application of forestland incentive programs and of other incentive measures
- 2) To examine how well they are serving California's private forestland owners and the broader public in providing both commodity and non-commodity values
- 3) To recommend options for improving forestland incentives for landowners.

PROCESS

It was decided that the objectives of the Task Force could be met by conducting at least two meetings and possibly three. The meetings were held in Sacramento. By the end of the second meeting, the Task Force had completed its charge. The first meeting was held on February 1, 2000. The second meeting was held on April 11, 2000. Both meetings were facilitated by the UCCE.

At the beginning of the first meeting, the Task Force members were presented with background information and summaries on the following topics related to incentives for conservation of timberland resources:

- Tax credits/incentives
- Conservation easements

- Cost-share and related programs
- Certification and other programs
- Regulatory relationships to incentives.

Following the presentations, small groups were formed to discuss each of those categories in greater depth, to identify issues relevant to the incentive(s), and to develop a list of findings and preliminary recommendations. Reporters from each of the small groups presented summaries of their groups' discussion and recommendations to the entire Task Force.



Between the first and second meeting, the Agency reviewed the findings and preliminary recommendations, and prepared a description of specific actions and alternatives that were already in place or being considered. These actions and alternatives were presented and discussed by the full Task Force at the beginning of the meeting on April 11, 2000. Small groups then reconvened to develop final recommendations to the Agency Secretary for each of the incentive categories.

DEFINING THE GOALS OF INCENTIVE PROGRAMS

The Task Force discussed the policy context for evaluating incentive programs and outlined desired goals for incentive programs in general. While many participants suggested that publicly supported incentives should contribute to sustainable forestry, others noted that there was still no commonly held definition of sustainability. They agreed that there wasn't sufficient time to tackle this issue at their meeting. Participants might wish to address this in the future, building on previous work such as the 1993 effort led by the Northern California Society of American Foresters (SAF), which included seven other natural resource professional societies. The Task Force did reach consensus on the following assumptions:

1. The goal of incentive programs should be to achieve exemplary forest stewardship in California that can be characterized as:
 - a. Maintaining and restoring the private forest-land base
 - b. Encouraging conservation of native biodiversity
 - c. Maintaining the capacity of forestland to produce the full range of ecological and economic goods and services in the long-term
 - d. Enhancing landowner profitability for doing the above.
2. Incentives should:
 - a. Reward excellence, in behavior and management, above the requirements of law.
 - b. Reward management for values such as water, scenery, wildlife, etc. that do not have commercial markets.
 - c. Help create or augment markets where they don't exist yet or are just emerging.
 - d. Provide rewards proportional to the public benefit achieved and the amount that the resource protection or enhancement exceeds regulatory requirements.
 - e. Be designed for pragmatic implementation and usable by the intended audience.

IMPEDIMENTS TO INCENTIVE PROGRAMS

The Task Force discussion included the following concerns by individual participants about policy and administrative issues that impede the use of effectiveness of incentive programs, although there wasn't necessarily consensus on these issues.

1. The lack of continuity of agency personnel makes it necessary to bring new people up to speed on local conditions and to continually forge new relationships.
2. There is a need to reduce disincentives to exemplary forest stewardship. Specific disincentives to exemplary forest stewardship include:
 - a. High cost and great complexity of regulations.
 - b. Lack of regulatory certainty in the future.
 - c. Lack of "safe harbor" agreements that reward good stewardship for creating habitat for endangered species or old-growth conditions by allowing continued timber harvest or management.
 - d. Reluctance on the part of landowners to assess watershed conditions because there may be problems that they may be required to fix.
3. There is a need to bring landowners, who are outside the regulatory process (not filing THPs or otherwise involved in management activities requiring agency involvement), into the watershed restoration planning and implementation process. They distrust government, especially the federal government. Natural Resources Conservation Service (NRCS) may be an exception because it is non-regulatory and seen as supportive of landowners. Cooperative Extension is probably also viewed in this way by landowners.

ISSUES AND RECOMMENDATIONS

The Task Force spent the majority of its time in each of the two meetings discussing issues and formulating recommendations. The final recommendations from the Task Force are based on the participants' careful consideration of the issues raised about each incentive category. The issues and recommendations that were submitted by the Task Force for each of the four incentive categories are presented below.

COST-SHARE/FINANCIAL INCENTIVES

ISSUES

Cost-share programs for protecting or improving forestland are available through State and federal agencies. These programs typically fund on-the-ground management activities and projects and, in an increasing number of programs, project planning costs. They require private or other public matches or contributions in the form of cash or in-kind contributions.

California Forest Improvement Program (CFIP)

The California Forest Improvement Program, administered by the Department of Forestry and Fire Protection (CDF), is probably the most well-known State program for assisting private forestland owners with traditional forest improvement activities. CFIP's purpose is to encourage private and public investments in forestland resources within the State to ensure adequate future high quality timber supplies, related employment and other economic benefits, and to protect, maintain, and enhance the forest resource for the benefit of present and future generations. The Task Force felt that forestland owners are still not taking full advantage of CFIP for the following reasons:

- There is a lack of adequate promotion of CFIP to landowners.
- Projects like fuels treatments, pre-commercial thinning, and other non-commercial activities will require a THP (and all of the costs associated with it) in order for the landowners to utilize sub-merchantable material.
- The cost-share match may be prohibitive for some landowners, although there has been a higher rate of completion of projects at the 25% cost-share level than at the 10% level; this suggests that for some

landowners, greater financial commitment results in greater follow-through.

- There are no "safe harbor" agreements to assure landowners of future ability to manage, harvest, or realize the results of their investments on their lands.

Project Integration at a Watershed Scale

Most of the current cost-share programs administered by the agencies operate at the project-level without considering the bigger, landscape-level picture. Addressing watershed issues and taking more of an ecosystem approach will require a more coordinated effort among agencies and other partners. These efforts would benefit from a common definition of terms related to watershed planning and assessment.

Need for Watershed Assessments

Watershed assessments are needed to target and ensure proper use of cost-share programs to address resource conservation problems. They could also be informative and engaging vehicles for landowners who otherwise might not consider protective watershed management and restoration activities until conducting projects that require permits, such as timber harvests.

Assessments should identify resource problems, evaluate resource conditions, and prioritize watershed protection and enhancement needs at basin and watershed levels. Efforts should address the need for collecting and consolidating information in a common format and for storing it in an easily accessible manner. Currently there are no consistent protocols for conducting watershed assessment, storing data, accessing data, funding the assessment, or monitoring.

Landowners will need financial and technical assistance to conduct watershed resource assessments and to develop watershed management plans. Some programs explicitly include watershed assessments as eligible activities. These include salmon restoration competitive grant programs under the Department of Fish and Game (DFG). Assessment activities may, however, be rated less favorably and thus funded less readily when compared with hands-on restoration projects. Other programs,

such as CFIP, may support assessment as an ancillary activity to forest improvement planning, although it is not explicitly identified in the program.

Inadequate Funding

Cost-share programs have historically been under-funded or funding has fluctuated from year to year. The Task Force felt that demand annually outstrips supply, and also that the granting agencies often lack adequate support staff to administer the funds they have. The current process for administering cost-share contracts also carries hidden costs for landowners by requiring them to pay project costs up front before receiving any cost-share reimbursement. Sometimes a landowner just cannot afford the “free” money. Some participants also discussed the possibility of reducing fiscal disincentives to certain forest improvement activities by allowing landowners to use submerchantable material without having to obtain costly Timber Harvest Permits (THP). This option would require changing forest practice regulations.

Complex Application Processes

Applying for cost-share programs is cumbersome and intimidating for many landowners. Those who have never applied before may need one-on-one assistance to complete the application process. In addition they often do not know the permitting requirements for implementing their project nor a contact source for information.

Lack of Monitoring

Many agencies do not know the impacts, either positive or negative, of the projects they have funded. Monitoring the impacts of cost-share programs is necessary to guide the future investment of state dollars. The results achieved by monitoring projects will be useful in arguing for more cost-share support and modifying current cost-share programs.

Need for Additional Outreach and Education

Outreach and education are important components of cost-share programs. Landowners need to understand the nature of the problems, their roles in addressing them, and sources of cost-share and other assistance. Policymakers need to understand the nature of the problems and assist in their solutions. Watershed groups and other community-based groups (RCDs, bioregional councils, etc.) need to learn more about these programs and inform their constituents and local stakeholders about them.

RECOMMENDATIONS

1. Improve the California Forest Improvement Program (CFIP).

- Increase CFIP promotion by increasing the number and quality of contacts that CDF service foresters have with forest landowners.
 - Evaluate proposals on the basis of how the proposed project addresses problems identified in the watershed assessment.
 - Consider project criteria that will help the landowner meet other regulatory compliance requirements (e.g. cumulative watershed analysis).
 - Consider reducing the landowner cost-share match from 25% to 10%.
 - Amend CFIP to cover the cost of third-party certification for nonindustrial owners.
2. Improve outreach and promote use of coastal salmon funds (SB271, Parks and Water Bond and federal funds) among forest landowners.
 - Private landowners need better understanding of how programs work and what type of restoration projects are eligible.
 - National Marine Fisheries Service needs to address landowners' fears that receipts of federal funds may trigger endangered species act obligations (e.g. critical habitat designation).
 3. Improve cooperation among agencies and private landowner's to improve forest stewardship.
 - CDF, DFG, the U.S. Forest Service, etc. should work with each other and with landowners to address landscape-scale issues, facilitate information transfer, coordinate funding, identify problems, design solutions, and provide incentives.
 - Agencies should use incarcerated work crews (Dept. of Corrections) and the California Conservation Corps (CCC) on forestry and watershed projects.
 - Agencies should recognize staff for collaborative efforts and give them incentives to participate in coordinated efforts.



4. Develop or increase funding and staff support for cost-share programs to provide:

- Technical assistance to landowners
 - Short-term loan programs for up-front, out-of-pocket costs
 - Funds for watershed groups and other community-based groups (RCDs, bioregional councils, etc.) to maintain communications, education, and information dissemination.
5. Provide “one-stop shopping” for application for grants and permits.
6. Establish a functional equivalency to an EIR process for cost-share programs to expedite project implementation.
7. Create “safe harbor” agreements to assure landowners of future ability to manage, harvest, and realize the results of their investments on their lands.
8. Consider options for providing basin and planning watershed-level assessments.
- Basin-level watershed assessments could be done by agencies and consist primarily of remotely sensed and general inventory information.
 - Planning watershed-level assessments could be done collaboratively by agencies, local non-profit groups, local watershed groups, and local landowners, and would entail more detailed, on-the-ground data collection. These collaborative efforts would increase trust among these groups and facilitate implementation of restoration projects and long-term watershed stewardship practices.
9. The California Biodiversity Council (CBC) should develop consistent definitions and terms for watershed assessment, including protocols for conducting watershed analyses, data collection, data storage, and data access.
10. The California Biodiversity Council should address watershed assessment funding needs such as:
- Providing financial and technical assistance to landowners to conduct watershed resource assessments and to develop watershed management plans
 - Investigating the use of current federal and State cost-share and assistance programs for their ability to fund watershed assessments.
11. Conduct an inventory of resource conditions and the location of all cost-share projects, and begin monitoring the impacts of all cost-share programs.

Use GIS to display conditions, current projects, and places where work is needed.

12. Increase outreach and education to:

- Landowners and policymakers to improve their understanding of the problems, their roles in addressing them, and sources of cost-share and other assistance
 - Provide examples of what works and publicize cooperative projects like Stonyford, Meadow Vista, and Traverse Creek
 - Educate urban, non-resource based citizens to help them understand their connections to natural resource issues, the value of restoration, and other efforts that can address resource problems.
13. Sponsor legislation that enables coordination and transfer of funds among agencies to improve delivery to landowners.
14. Clarify the governance and decision-making processes for cost-share programs to alleviate any “local” concerns about out-of-watershed stakeholders.

CERTIFICATION

ISSUES

Certification programs provide an independent third-party mechanism for ensuring that wood products are produced by properly managed forests, and for providing chain-of-custody verification for wood product companies selling certified wood products. In the United States there are two certification systems that have been accredited by the International Forest Stewardship Council. One of these, Scientific Certification Systems, is based in California. The other is Smartwood, which has a small network of members nationwide, including the Institute for Sustainable Forestry in northern California.

Need for Education

The concept of forest certification continues to evolve and mature. A fundamental strength of forest certification is that it relies on the market to reward good forest stewardship. It does this by using regionally based performance standards to evaluate forest conditions and ecologic function. These programs incorporate social, ecological, and economic considerations. Certification provides a mechanism for these operations to capture markets for environmental or “green” goods, and encourages competition for those markets.



Markets require informed and educated consumers to operate efficiently. Currently there is little publicity or focused education about California's certification programs, so citizen awareness is very low. Interest is growing, however, as private and public sectors look to independent third-party certification as an educational tool to demonstrate stewardship and as a mechanism for promoting sustainable forestry.

Benefits and Disadvantages

Certification provides private and public benefits by creating a supply of certified sustainable forestry products, providing a pool of certified experts, and by promoting long-term protection of habitats, watersheds, and other values. Certification may also work synergistically with regulatory processes. By increasing the "comfort" level of regulators and the broader public, it may facilitate or speed up permit approval and thus provide defacto regulatory relief. Since certified forestry is based on site-specific conditions, it could also offer more management flexibility than standard regulatory approaches. The disadvantages of certification include additional upfront costs to the landowner and the potential for creating additional regulatory oversight and restrictions by improving habitats to the point that they recruit endangered or threatened species.

Potential for Regulatory Recognition

Resource agencies may wish to develop policies, procedures, or rules that recognize the benefits of certification and thus provide more formal regulatory relief. Several issues must be addressed to move this discussion forward.

- Current certification programs are not all equal. Agency and public expectations for using certification as a regulatory alternative must therefore be clarified, and options for standardizing certification programs must be discussed. Current Forest Stewardship

Council guidelines could provide direction for these discussions.

- Certifiers fear that they will be asked to "lead the charge" through political channels. This would raise conflict of interest issues, impacting the credibility of certification programs. The State should lead discussions about the potential for certification as a regulatory alternative.
- Certifiers do not wish to become defacto forest practice inspectors by having the burden of regulatory oversight shifted from the State to them.
- There is also concern that regulatory discussions may focus on a "small landowner" program and that this would discourage participation in certification by medium-sized ownerships. This runs counter to goals to promote exemplary forest management practices for all landowners.

RECOMMENDATIONS

1. Encourage certification to evolve as a tool for promoting stewardship activities, allowing the market to validate it rather than government.
 - Use certification programs to educate landowners on the positive aspects of forestry.
 - Identify actions to increase landowner and agency awareness.
2. The Resources Agency should sponsor a forest certification forum to consider the potential use of certification as an alternative to regulation. The forum should:
 - Include appropriate State and federal resource agencies
 - Address Board of Forestry policy issues about the scope of forest certification relative to the Forest Practice Act
 - Assist in the establishment of criteria for recognizing certification as a regulatory alternative
 - Develop a formula that combines regulatory certainty and regulatory alternatives, such as: Forest Management Plan + Certification + ? = certainty and regulatory approval.
3. Certification should be used in conjunction with other incentive programs. For example, conservation easements could be used with certified management.

CONSERVATION EASEMENTS

ISSUES

Conservation easements can provide financial incentives for long-term forest protection by generating income and/or reducing taxes for landowners willing to forgo, defer, or modify one or more types of land use. They have been used most often to prevent development or habitat conversion. Conservation easements programs could also be used as third party mitigation for off-site development projects or other activities. These economic returns can help underwrite the costs of long-term management and restoration activities, thereby increasing landowner capacity for and commitment to stewardship and sustainable forestry.

Lack of Landowner Awareness

Forestland owners are not currently well informed about conservation easements with respect to how they work, their economic benefits, and their contributions to protection of public trust resource values. Current efforts to contact landowners are inefficient and have not been very effective. Additional educational efforts are needed to reach landowners, foresters, and other advisors. These efforts would be better received from a non-governmental entity than from agencies.

Lack of Adequate Funding

Additional funding is needed to increase the scope and capacity of easement programs and to encourage forest landowners to participate. One of the main reasons that landowners have not become more interested is insufficient funds. The federal Forest Legacy Program has provided limited funds for California and has been available only in five counties. No state program has existed at all. Stable, permanent funding will be needed to establish conservation easements as viable options for landowners. The Task Force also discussed the need to coordinate and leverage other resource protection funding sources. They also felt that long-term funding efforts should include monitoring and reporting activities, and support the cost of developing the easements.

Ownership of Easements

Many landowners are uncomfortable with having a government organization hold title to an easement. Most prefer to have a non-governmental, private partner such as non-profit, volunteer land trusts.

Synergy with Other Conservation Efforts

Conservation easements can be used to educate landowners about stewardship and long-term management, help implement broader conservation efforts such as

watershed planning, and leverage other publicly funded conservation projects. Conservation easements could be used to educate landowners about proper management practices, cost-share or grant programs, and mechanisms such as certification. Landowners who donate or sell conservation easements could be given a higher priority in other State incentive programs, such as cost-share assistance programs, because their easements provide assurance that public benefits from those sources will be maintained over time.

Targeting Easements for Public Benefits

Conservation easements should result in forest conditions that exceed the requirements of the law to protect public trust values. Prioritizing conservation easement acquisitions to high priority areas will strengthen the support and credibility of easement programs. Using them in conjunction with other resource protection projects will increase the likelihood of achieving conservation goals. Easement purchases and funding could be prioritized by: 1) conservation needs for a given geographic area, e.g. salmon habitat protection for listed watersheds; 2) the inclusion of multiple rather than single objectives, e.g. habitat, water quality and watershed protection, scenic values, and protection from development and conversion; and 3) level of coordination with other related restoration or planning and management activities.



Regulatory Concerns

Landowners may have concerns about easements creating habitat for endangered species which could, in turn, increase future regulatory constraints on managing the easement or adjacent land. The State should work with federal agencies to explore mechanisms for preventing landowners from being penalized for enhancing habitat and ensuring that they can continue to properly manage their land.

RECOMMENDATIONS

1. The State should develop a conservation easement education program, using a non-governmental private contractor. This effort should:
 - Include Resource Conservation Districts (RCDs), University of California Cooperative Extension (UCCE), State agencies, and federal agencies such as Natural Resources Conservation Service (NRCS) and USFS
 - Consider UCCE as the logical lead agency, given its educational role
 - Target landowners, lenders (banks), county planners, and other decision makers, as well as landowner advisors such as foresters, appraisers, and attorneys
 - Describe the economic benefits of easements, valuation methods, flexibility of use, potential partnerships, and integration with other programs such as EQIP and other restoration programs
 - Produce appropriate publications and conduct a series of outreach workshops.
2. The Resources Agency should lead efforts to coordinate conservation easement development with other programs for protecting or restoring forest values. It should:
 - Consider opportunities through water quality and watershed funding, salmon habitat restoration funding, and Forest Legacy program
 - Increase the scope and capacity of those programs that encourage and support easements for forest landowners
 - Work with agencies to consider giving higher priority to requests for incentive program funds from land owners who have conservation easements.
3. The Resources Agency should explore additional and stable funding mechanisms and use a contractor, if necessary, to develop options. This effort should consider:
 - Creating a permanent fund called the Annuity Based Conservation (ABC) Fund to allow for on-going acquisition and maintenance of forestland conservation easements
 - Ways to leverage or augment an annuity fund with private funds
 - Costs of developing, acquiring, and monitoring the easements.
4. Easement programs should ensure accountability by:
 - Funding monitoring and reporting activities for all conservation easements
 - Periodically reporting to the Legislature and the public on the use of funds for conservation easements, and on their public benefit.
5. The use of conservation easements as credible third-party mitigations should be promoted. Possibilities include:
 - Wildlife and plant habitat enhancements in development projects
 - Watershed mitigation projects
 - Carbon-offset projects.
6. Strengthen the Forest Legacy program by:
 - Extending it to all forested counties of the state
 - Developing a mechanism whereby qualified non-profit land trusts can hold title to conservation easements through Forest Legacy.
7. Explore Safe Harbor Act options for addressing landowner concerns about potential regulatory impacts of increasing endangered species habitat.
8. Establish target areas for conservation easements by:
 - Working with county land use plans and local land use regulations
 - Developing an inventory of areas to target for conservation
 - Obtaining an analysis of conservation program impacts on the availability of manageable forestlands and future timber supply.
9. Considering possible synergy between conservation easements and tax incentives/credits, and between conservation easements and HCPs.
10. Help landowners and other groups use conservation easements by:
 - Providing the best possible data on the state of forest conditions



- Updating and publishing the Forest and Rangeland Assessment Program report every 5 years, and supplementing this with annual indicator reports.

11. Provide incentives for counties to participate in conservation programs.

TAX INCENTIVES

ISSUES

Tax policies can influence landowners' willingness to manage forestland and invest in forest improvement by affecting the types and timing of activities subject to taxation. Landowners must weigh the balance between revenues and taxes associated with their management activities. Tax incentives such as tax deductions, tax credits, and tax deferments should be improved to promote stewardship activities that protect and enhance public trust values. Task Force participants said that given both the tax structure and the current regulatory climate, some landowners have concluded that it's just too expensive to harvest timber on their lands.

Federal, State, and Local Tax Concerns

Changes are needed in all three tax areas - federal, State and local - to encourage long-term management for the full range of forest habitat values. Current federal tax law may discourage practices such as road or culvert maintenance which are needed to protect watershed values or habitats by excluding ongoing or annual expenses and by forcing landowners to capitalize rather than deduct them. The latter disincentive can be particularly onerous for smaller landowners who harvest less frequently. Some of these same landowners may not be able to deduct forest management expenses at all if they don't spend at least 100 hours annually on timber business. This passive activity loss rule may be a disincentive to investments on non-industrial ownerships which constitute over 30% of the State's forestlands and over 40% of the State's private timberland. The Pacific Forest Trust is participating in national discussions of federal tax issues.

State and local tax options for encouraging long-term retention of individual trees or stands of trees are also needed. More information is needed in general to assess the magnitude of resource protection needs that could be addressed by improving tax incentives.

RECOMMENDATIONS

1. Make needed changes to the federal tax code to redefine passive vs. active involvement and to create the ability to deduct stewardship activities on an annual basis.
- Hold a workshop, focusing on timberland exemptions from passive loss rules, and on enhancing the Refore-

tation Tax Credit & Amortization to cover more activities, increase dollar amounts, shorten or eliminate amortization, etc.

- Get information on previously introduced bills.
 - Prepare a proposal for introduction in Congress and get bipartisan support from Thompson and Herger.
2. Identify needed changes to State tax credits and yield taxes, and draft appropriate legislation. Consider the following:
 - State tax credits for trees permanently designated/committed to salmon restoration, such as large merchantable trees used for instream structures, and to temporary conservation easements for deferred harvests
 - Application of the new Natural Heritage-Preservation Tax Credit Act of 2000 to timberlands and forest habitats
 - Additional tax incentives for retaining trees or deferring harvest for "interim" regulatory measures, such as interim protection rules for salmon.
 - Effects of any new tax credits on the General Fund.
 3. Consider the relevance and value of a county property tax incentive for less intensive land uses, such as a "Natural Habitat Area Zoning" proposal.
 - This could be structured and administered similar to TPZ or the Williamson Act, allowing landowners to renew periodically and allowing counties to determine which resource values they wished to include.
 - It could include income tax credit and property tax deduction elements.
 4. Identify priority needs for developing, targeting, and implementing tax incentives.
 - Identify "stop-gap" incentives to protect key refugia or other critical priorities for retention.
 - Assess the extent of eligible acreage for new tax incentives, particularly for encouraging actions such as tree or habitat retention.
 5. Continue discussion about "providing protection above the baseline" that pertains to the development of new incentives.
 6. Ensure that any tax law changes have a broadbase of support beyond just the nonindustrial private landowners.
 7. Continue to find ways to help connect forest land owners with good tax advice while working on more complicated legislative actions.

RESOURCES AGENCY ACTION PLAN

The Resources Agency has been working with various stakeholders to improve incentives for forest protection and conservation since the beginning of the Davis Administration. These include small landowners, watershed and fishery groups, industry, the Legislature, and others. The Department of Forestry and Fire Protection (CDF) is the lead department in this effort. Several new steps have been undertaken in response to specific Task Force recommendations. The following section includes a summary of recent accomplishments and new activities.

COST-SHARE PROGRAMS

RECENT ACCOMPLISHMENTS: JANUARY 1999 TO NOVEMBER 2000

Restored and expanded the California Forest Improvement Program (CFIP)

After four years with no funding, the Administration restored \$2.2 million to CFIP and increased staffing from 3 to 6 to provide more land management assistance to forest landowners.

Increased funding for restoration activities and assessments to protect salmon

The Resources Agency and the Department of Fish and Game (DFG) established the Coastal Salmon Recovery Program with the National Marine Fisheries Service (NMFS) to provide competitive grants for salmon habitat restoration activities such as erosion control, bank stabilization, and riparian corridor protection; and for watershed assessments (specifically including road assessments), evaluation and planning activities.

Legislatively expand CFIP for stewardship purposes

CDF sponsored Assembly Member Strom-Martin's bill (AB 2478) to expand the use of CFIP to protect forest stands from fire and to remove funding limits for conservation and habitat purposes. This was passed by the Legislature and signed by the Governor.

NEW OR POTENTIAL ACTIONS

Coordinate cost-share and grant programs

The Agency is working to improve the effectiveness of watershed restoration cost-share and grant programs by identifying and addressing coordination needs.

- The California Biodiversity Council's Watershed Work Group has developed "Best Funding Practices for Watershed Management," which are recommendations for streamlining grant application processes, improving administrative efficiencies, enhancing the use of science for project selection, and increasing reporting and accountability.
- The Resources Agency is working with California State University Chico to develop a Watershed Funding Website and on-line database of programs and funding.
- The California Biodiversity Council Watershed Work Group is exploring ways to improve the accountability of restoration project funding, including the use of explicit performance measures, project databases such as UC Davis' Natural Resource Project Inventory (NRPI), and a project-tracking model from Oregon.

Stabilize funds for on-going forest stewardship

The Agency will consider options for maintaining stable funding for critical restoration and stewardship programs across budget years, including options such as endowments, environmental trust accounts, and revolving funds.

Provide assistance to small landowner watershed analyses for timber harvest planning

In light of interest by the Board of Forestry and National Marine Fisheries Service in incorporating watershed analysis into timber harvest planning and regulation, the Resources Agency will work with CDF, the Board of Forestry, landowners, and the Legislature to determine whether there is adequate assistance available for nonindustrial forest landowners to implement comprehensive watershed analyses, should a watershed analysis rule package be adopted by the Board of Forestry. If additional assistance is needed, options for expanding existing grant or cost-share programs, developing new administrative tools, or developing new legislation may be explored.

Update cost-share program directory

The University of California Cooperative Extension (UCCE) maintains and is updating its directory, "Cost-Share and Assistance Programs for Individual Landowners and Indian Tribes," which describes agency programs, eligible activities, and funding considerations.

CERTIFICATION

NEW OR POTENTIAL ACTIONS

Explore role of certified forestry in regulation.

In response to recommendations by the Task Force, the Department of Forestry and Fire Protection (CDF) is convening a Forest Stewardship Task Force of foresters, certifiers, and forestland owners to explore the role of independent third-party certification in providing regulatory compliance. Potential options include:

- Facilitating compliance for small landowners with the Forest Practices Act, Endangered Species Act, and Total Maximum Daily Loads through nonindustrial timber management plans (NTMPs) tied to third-party certification.
- Explore the use of a programmatic Timber EIR on a watershed scale, with a possible pilot in Placer County.

Recognize value of certification to other cost-share and grant programs

The Resources Agency will work with its departments to incorporate criteria recognizing the potential benefits of certified forestry into landowner assistance programs. These might expedite the review, selection, or funding of projects on certified forest ownerships. CDF will evaluate whether CFIP should be amended to cost-share costs of certification to nonindustrial landowners.

CONSERVATION EASEMENTS

RECENT ACCOMPLISHMENTS: JANUARY 1999 TO NOVEMBER 2000

Increase state funding for Forest Legacy

Proposition 12, supported by the Administration and passed by voters in the spring of 2000, will provide \$5 million for Forest Legacy in FY 2001, 2002 and 2003.



Provided funding for easements for salmon restoration purposes

The Coastal Salmon Recovery Program, established in spring 2000 to protect and restore anadromous salmon habitat, has included easements as eligible projects. These could be used on forestlands to protect refugia, riparian corridors, and other critical landscape needs for salmon habitat.

Legislation creating a state Forest Legacy Program

The Governor signed legislation authored by Senator Chesbro to establish a state Forest Legacy program to prevent forestland conversion and to protect habitats, rare plants, biodiversity, water quality and watersheds on riparian areas, oak woodlands, ecological old growth forests, and other forest types. This program will also allow State, federal and local agencies and non-profit land trusts to purchase and hold the easements.

NEW OR POTENTIAL ACTIONS

Increase availability and federal funding for Forest Legacy Program

- CDF is amending the Forest Legacy Program Assessment of Need to include all forested counties in California.
- CDF will continue to seek additional federal funding from the Forest Legacy Program for California to meet our needs. CDF requested \$8 million of the \$60 million federal 2001 Forest Legacy budget this year, but received only \$1.385 million.

Support efforts to amend the federal Forest Legacy Program to include non-profits

CDF is working with the Pacific Forest Trust to assist them in their efforts with Congress to amend federal authorization to allow Forest Legacy Program easements to be held by non-profits.

TAX INCENTIVES/CREDITS

NEW OR POTENTIAL ACTIONS

\$100 Million Natural Lands Heritage Tax Credit Act of 2000

The Governor included \$100 million for a new Natural Heritage Tax Credit in the 2000-2001 budget. Legislation was subsequently drafted and passed that specifically authorized this new program. The program provides tax credits to landowners who donate easements that contribute to Habitat Conservation Plans (HCPs) in forests, old growth and oak woodlands; species recovery; open space and parks; and other needs. Credits will provide 55% of the value of the easement. The Wildlife Conservation Board is responsible for developing program guidelines including applicability to forest and timberland management.



Improve federal tax incentives for stewardship

CDF will recommend support for collaborative efforts by industry, environmental groups, forest landowners, fishery groups, and others to work with Congressional representatives to develop new tax legislation that reduces disincentives to stewardship activities. These measures might include:

- Allowing landowners to expense additional or more frequent activities such as road and culvert maintenance, erosion plantings, restoration, etc. that are critical to stewardship, watershed and habitat protection
- Exempting small timberland ownerships from passive loss requirements, which would allow nonindustrial landowners to deduct management expenses for stewardship activities even if they spend less than 100 hours per year managing their forests
- Tax deferments or reductions for “light-touch” forestry.
- Reforms of the estate tax code that encourage retention of working forests and ranch lands.

Develop state tax incentives

The Resources Agency encourages continued discussions through CDF for reasonable, additional tax credits as a partial offset for future endangered species act recovery requirements similar to the approach adopted by Washington State, particularly for landowners who are who most affected. Specific options include:

- Credit for leaving additional trees on site during timber harvest (i.e. above and beyond regulatory requirements) through reduced yield taxes
- Reduced yield tax for deferred harvest
- Tax credits for temporary easements.

- The benefits of any of these options must be weighed against the cost of the General Fund.

CROSS-CUTTING INITIATIVES

RECENT ACCOMPLISHMENTS: JANUARY 1999 TO NOVEMBER 2000

Enhance local capacity for watershed planning through Resource Conservation Districts

The Administration provided the Department of Conservation with \$2 million for grants to Resource Conservation Districts (RCDs) to assist landowners or watershed groups in watershed management and planning.

NEW OR POTENTIAL ACTIONS

Encourage market-based approaches to carbon sequestration

The Governor signed legislation (SB 1771, Sher) to establish the California Climate Action Registry as a public benefit nonprofit corporation that would record and register voluntary greenhouse gas emission reductions. It will also require the California Energy Commission, in consultation with the Air Resources Board, the Department of Forestry and Fire Protection, the Department of Transportation, the State Water Resources Control Board, and the California Integrated Waste Management Board, to identify strategies and technologies for reducing emissions and mitigating climate change.

- The registry, by providing standards and mechanisms for auditing carbon dioxide emissions, will help establish markets for carbon sequestration by forest landowners. These standards could be incorporated into future certification, easement, or tax incentive program objectives.
- CDF will work with all interested parties to develop a set of principles for carbon credits and banking on forestlands, and guide location of banks towards sensitive or legacy habitat areas.

Assess statewide natural resource conservation needs

The Resources Agency is supporting activities to inventory and evaluate resource conditions and trends, including forestlands, and to develop recommendations for conserving and improving them.

- The California Continuing Resource Investment Strategy Program (CCRISP) is a public/private project led by the Resources Agency to assess and develop long-term protection and restoration priorities for habitats across California. It will also provide a means for evaluating how effectively conservation programs are addressing these priorities.

- CDF's Fire and Resource Program (FRAP) is updating its Forest and Rangeland Assessment which assesses wildland conditions and trends, resource protection needs, and management and policy options.

Assess conservation needs at the watershed scale.

The Administration funded an interagency North Coast Watershed Assessment Program, which is being led by the Resources Agency, to provide baseline information about north coast watershed conditions, processes, land uses, and resource values to guide State investments in restoration, support landowner management planning and agency regulation, and promote coordinated stewardship activities. Products available on-line and by CD-ROM to forest landowners and others will include data and analyses of geology and erosion, fish habitat and limiting factors, land use including timber harvest, and water quality. This program will be integrated with the implementation of any new watershed assessment rules developed under the Forest Practices Act.

Coordinate interagency restoration permitting processes

The Resources Agency and CalEPA are working with other State and federal agencies to improve interagency coordination on permit review processes to expedite on-the-ground restoration activities.

- CalFed is developing an up-to-date permitting handbook which will be useful statewide.
- The Resources Agency will work with EPA and others to examine joint application processes for watershed and fish restoration projects.
- The Department of Fish and Game is working with NMFS and USFWS to expedite Endangered Species Act consultations on DFG's Salmon Restoration Handbook and on the U.S. Army Corps Regional General Permit for Stream Crossings and Culverts.

Eliminate barriers to restoration.

The Resources Agency, working with Sustainable Conservation, a non-profit organization, has convened a new Task Force for Removing Barriers to Restoration. This Task Force is charged with identifying and address-

ing outstanding impediments and policy disincentives to watershed restoration, such as landowner liability for watershed improvement activities and permit coordination needs.

Coordinate with outreach efforts by University of California Cooperative Extension.

The Resources Agency will work with the University of California to improve availability and delivery of needed programs to forest landowners. UC efforts include:

- Identifying options for filling existing geographic and disciplinary gaps in the availability of Cooperative Extension's Natural Resource Advisors to improve assistance to forest landowners in places such as the Sierra
- Seeking funding for updating its very successful interactive CD-ROM, "Working in the Woods" and identifying opportunities to partner with the Resources Agency to provide the needed workshops and outreach.

BACKGROUND RESOURCES

1. Financial Incentives for Stewardship of Nonindustrial Private Forestland in Humboldt County, Redwood County Action Agency, 1998.
2. Cost-Share and Assistance Programs for Individual California Landowners and Indian Tribes, UC Cooperative Extension, 1999.